

**BALDWIN PATTIE DRUG, LLC**

**Summary of Significant Forecast**

**Assumptions and Accounting Policies**

**Year Ending December 31, 2020**

This financial forecast presents, to the best of management's knowledge and belief, the Company's expected results of operations for the forecast period. Accordingly, the forecast reflects management's judgment as of March 9, 2020, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**a. Summary of Significant Accounting Policies.**

**Basis of Accounting.** The Company keeps its books and records on the Income Tax Basis, that is, the basis of accounting used to recognize revenue and expenditures for the purpose of filing the Company's US Federal Income Tax Return. Because the purchase and sale of inventory is a substantial part of the Company's business, the accrual method is used. On this method, revenue is generally recognized when a sale occurs and expenditures are generally recognized when incurred.

**Capitalization Policy.** Under IRC Section 1.263(a)(1)(f), the taxpayer elects to use the de minimis safe harbor election. The general capitalization policy for book and tax purposes is that all equipment and other fixed assets costing in excess of \$2,500 per invoice (or item as substantiated by the invoice) will be recorded as an asset. This policy will be in compliance with the IRS safe-harbor provisions described in Reg. Sec. 1.263(a)(1)(f). If a repair or improvement in excess of \$2,500 is considered a betterment, adaptation, or a restoration to a unit of property, such expenditure will need to be capitalized for book and tax purposes.

**Depreciation & Amortization Expense.** The Company treats depreciation and amortization expense for book purposes as equal to that for income tax purposes. For purposes of this forecast, the Company has chosen to depart from the Income Tax Basis by omitting Depreciation & Amortization Expense. Because these are non-cash expenses, the Company believes that this omission will make the information more relevant to the users of this forecast.

**b. Sales.** The Company's sales are forecasted to increase by 2.00% as the effect of a price increase.

**c. Cost of Goods Sold.** The Company's Cost of Goods Sold are forecasted to increase by 2.00% over the prior year, consistent with historical averages.

**d. Depreciation and Amortization Expense.** The Company has omitted the non-cash expenses for depreciation and amortization on this forecast in order to make the forecast information more relevant to the users.

**e. Selling, General, and Administrative Expenses.** The principal types of expense within this category are Insurance, Rent, Telephone, Utilities, and Software expense. All of these have been consistent over the past 3 years and are forecasted to be substantially identical to the prior year.

**f. Non-Officer Gross Payroll & Payroll Taxes.** Wages and Payroll Taxes are calculated by taking the 3-year average of amounts for non-officers.

**g. Officer's Salary & Payroll Taxes.** Officer's Salary is forecasted to be \$65,000 per year with payroll taxes calculated on that amount.

**f. Bank Borrowings and Interest Expense.** The forecast assumes that the Company will obtain a favorable outcome in its Chapter 11 reorganization, which will drastically reduce interest expense paid in the prior year. The Company has forecasted interest expense approximating that calculated on its 5.5% business line of credit with Chemical Bank.

This financial forecast not been subjected to an audit, review, or compilation engagement, and no assurance is provided on it.

**BALDWIN PATTIE DRUG, LLC****Forecasted Statement of Income****Year Ending December 31, 2020**

|   |                      |
|---|----------------------|
| Net Sales                                     | \$ 2,744,400         |
| Cost of Goods Sold                            | <u>2,377,900</u>     |
| Gross Profit                                  | 366,500              |
| General & Administrative Expenses             | 126,100              |
| Non-Shareholder Gross Wages & Payroll taxes   | 151,400              |
| Shareholder's Salary & Payroll taxes          | <u>70,100</u>        |
| Operating Income                              | 18,900               |
| Interest Expense                              | 5,800                |
| Net Income before Depreciation & Amortization | <u><u>13,100</u></u> |

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

Substantially all disclosures required by the Income Tax Basis have been omitted.

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